

COUNTY OF YORK, VIRGINIA
Notes to General Purpose Financial Statements
June 30, 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

York County, which was originally named Charles River County, was one of Virginia's eight original "shires" formed in 1634. It was renamed nine years later in 1643 when the river that determines the County's character was also given the name of the then Duke of York.

York County has played a major role in the development of this nation. Most importantly, it was the location of the culminating battle of the Revolutionary War and the subsequent surrender of Lord Cornwallis and his British army on October 19, 1781.

The financial statements presented for the County of York, Virginia, (the County) are prepared in accordance with accounting principles generally accepted in the United States of America applicable to governmental units, as prescribed by the Governmental Accounting Standards Board (GASB). The County's significant accounting and reporting policies are described in the following notes:

A. Reporting Entity

In evaluating how to define the government, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the following criteria. The basic criterion is the governing body's oversight responsibility, which can include selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. A second criterion considers whether the activity benefits the government and/or its citizens. The final criterion is the existence of special financing relationships.

The accompanying financial statements present the County (the primary government) and its component units. The financial data of the component units are included in the County's reporting entity because of the significance of their operational or financial relationships with the County.

COUNTY OF YORK, VIRGINIA
Notes to General Purpose Financial Statements, Continued
June 30, 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

All of the County's component units have been discretely presented. Discretely presented component units are entities that are legally separate from the County, but for which the County is financially accountable, or whose relationships with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. These component units are reported in separate columns to emphasize that they are legally separate from the County. All of the component units have a June 30 year-end.

The **York County Public Schools (the Schools)** are responsible for elementary and secondary education within the County. As of January 1, 1996, the citizens of the County have elected the members of the School Board. The Schools are fiscally dependent upon the County because the Board of Supervisors approves the annual budget of the Schools, levies the necessary taxes to finance the Schools' operations and approves the borrowing of money and the issuance of bonds. The School Activity Agency Fund accounts for various student activities in each of the schools. The Treasurer of the County does not have custody over these monies and has no fiscal accountability; therefore, the fund has not been included in the County's financial statements. Separate audited financial statements are available from the Schools at 302 Dare Road, Yorktown, Virginia, 23692.

The **Industrial Development Authority of York County (IDA)** was established under the Industrial Development and Revenue Bond Act - *Code of Virginia*. A separate board appointed by the Board of Supervisors governs the IDA. The IDA is fiscally dependent upon the County because substantially all of its income is derived from an appropriation from the County. The IDA has the responsibility to promote industry and develop trade by inducing manufacturing, industrial and commercial enterprises to locate or to remain in the County. Separate audited financial statements are available from the IDA at P. O. Box 612, Yorktown, Virginia, 23690. As discussed in Note 2, cash and investments of the IDA are pooled with County funds for investment purposes only.

B. Joint Venture Government Organizations

The County does not include in the accompanying financial statements certain authorities created as separate governments under the laws of the Commonwealth of Virginia. These authorities are separate legal entities having governmental character and sufficient autonomy in the management of their own affairs to distinguish them as separate from the administrative organization of the County although the County Board of Supervisors appoints certain members of their governing bodies. While the County may have some reversionary interest in the assets of these entities in the event they are dissolved, the nature and extent of that interest would be subject to negotiation at the time of dissolution.

The County does not include these entities as component units because they do not meet the criteria as set forth in Governmental Accounting Standards Board Statement No. 14 - "The Financial Reporting Entity."

The **Virginia Peninsulas Public Service Authority (VPPSA)** was established under the Virginia Water and Sewer Authorities Act - *Code of Virginia*. A separate ten-member board of which the County appoints one representative governs VPPSA. VPPSA was formed for the purpose of developing regional refuse collection, waste reduction and disposal alternatives with the ultimate goal of acquiring, financing, constructing and/or operating and maintaining a residential, commercial and industrial garbage and refuse collection and disposal system or systems. VPPSA is fiscally independent of the County because substantially all of its income is generated through the collection of user fees. Separate audited financial statements are available from VPPSA at 300 McLaws Circle, Suite 200, Williamsburg, Virginia 23185.

The **Virginia Peninsula Regional Jail Authority (Jail Authority)** was created pursuant to Article 3.1, Chapter 3, Title 53.1 of the *Code of Virginia* to finance, acquire, construct, equip, maintain and operate a regional jail. A separate seven-member board of which the County Sheriff serves as a member and the County appoints one representative governs the Jail Authority. The Jail Authority is fiscally independent of the County because substantially all of its income will be generated from per diem payments from the member jurisdictions and reimbursements from the Commonwealth of Virginia for a portion of the capital costs, a portion of salaries and benefits of certain regional jail employees and a per diem charge for all prisoners housed at the jail. Separate audited financial statements are available from the Jail Authority, c/o the County of James City at P. O. Box 8784, Williamsburg, Virginia 23187-8784.

The **Middle Peninsula Juvenile Detention Commission (the Commission)** was created to enhance the region for the protection of the citizens by the construction, equipping, maintenance and operation of a new juvenile detention facility serving the eighteen member jurisdictions of which the Director of Community Services serves as the County's representative on the board. The Commission is fiscally independent of the County because substantially all of its income will be generated from per diem payments from the member jurisdictions and reimbursements from the Commonwealth of Virginia for a portion of the capital costs. Separate audited financial statements are available from the Commission, c/o the County of James City at P. O. Box 8784, Williamsburg, Virginia 23187-8784.

COUNTY OF YORK, VIRGINIA
Notes to General Purpose Financial Statements, Continued
June 30, 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

C. Basis of Presentation - Fund Accounting

The accounts of the County are organized on the basis of funds or account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances/retained earnings, revenues and expenditures/expenses. The various funds are summarized by type in the combined financial statements. The County uses the following fund types and account groups:

Governmental Fund Types

Governmental Funds are those through which most governmental functions of the County are financed. The acquisition, use and balances of the County's expendable financial resources and the related liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The measurement focus of governmental fund types is upon determination of changes in financial position, rather than upon net income determination. The following are the County's governmental fund types:

General Fund - The General Fund is the general operating fund of the County. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes. This fund type includes Children's Services / Head Start and Virginia Public Assistance.

Debt Service Funds - Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs. The Debt Service Funds include Fire and Rescue, Public Facilities and Education Debt Redemption.

Capital Project Funds - Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds). The Capital Project Funds include Yorktown Capital Improvements and County Capital.

Proprietary Fund Types

Proprietary Funds are used to account for the County's ongoing organizations and activities that are similar to those often found in the private sector. The measurement focus of proprietary fund types is upon determination of net income. The following are the County's proprietary fund types:

Enterprise Funds - Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. The Enterprise Funds include York Sanitary District, Sanitary District No. 2, Water Enterprise, Solid Waste, Water Utility, Sewer Utility and Yorktown Revitalization.

As of January 1, 1992, the County consolidated its two separate sanitary district systems with separate regulations into one countywide unified system with a uniform set of regulations. In an agreement between the County and the sanitary districts, the County leased for a period of 20 years all of the sewer facilities of the two sanitary districts. York Sanitary District receives rent of \$10 per year through December 31, 2012. Sanitary District No. 2 received a sum sufficient to pay off its outstanding debts with final payment made July 1, 1997. In return for receiving sewer fees and charges, and other financial assets of the districts that are attributable to the district's sewer systems, the County agrees to operate a unified system, and assume all of the obligations of the districts. As of June 30, 2002, the sanitary districts continue to exist as enterprise funds containing all of the fixed assets. All other assets and liabilities have been transferred to two enterprise funds, the Sewer Utility and the Water Utility, which account for the operations of the unified sewer and water systems.

COUNTY OF YORK, VIRGINIA
Notes to General Purpose Financial Statements, Continued
June 30, 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Internal Service Fund - The Internal Service Fund is used to account for the financing of goods or services provided by one department to other departments or agencies of the County, or to other governments, on a cost-reimbursement basis. This fund type includes the Transportation Fund, which accounts for the operation of the centralized motor vehicle pool.

Fiduciary Fund Types

Fiduciary Funds are used to account for assets held by the County in a trustee capacity or as an agent for individuals, private organizations, other governmental units or other funds.

Agency Funds - The Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Agency Funds include the Mental Health Chapter X, Colonial Group Homes Commission, Special Welfare, Yorktown Waterfront, Historical Committee, Law Library and Other Funds, which include Darby-Firby Neighborhood Corporation, Victory Monument Lighting, Library Donations, Library Foundation and Peninsula Public Sports Facility Authority.

Account Groups

Account groups are used to establish accounting control and accountability for the County's general property, plant and equipment and general long-term liabilities. The following are the County's account groups:

General Fixed Assets Account Group - This account group is established to account for all property, plant and equipment of the County, other than those accounted for in the Proprietary Funds. Property, plant and equipment of the Discretely Presented Component Unit School Board are presented separately.

General Long-term Obligations Account Group - This account group is established to account for all long-term liabilities of the County except those accounted for in the Proprietary Funds. Long-term liabilities of the Discretely Presented Component Unit - School Board are presented separately.

D. Basis of Accounting

The Governmental Funds and Agency Funds follow the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures, other than interest and principal on long-term debt which is recorded when due, are recorded when the fund liability is incurred, if measurable.

In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are however, essentially two types of these revenues. In one, monies must be expended on the specific purpose or project before any amounts will be paid to the County; therefore, revenues are recognized based upon the expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the accrual criteria are met.

Real and personal property taxes are recorded as revenues and receivables when levied and billed, net of allowance for uncollectible amounts. Property taxes not collected within 45 days after year-end are reflected as deferred revenues. Sales and utility taxes, which are collected by the State or utility companies by year-end and subsequently remitted to the County, are recognized as revenues and receivables upon collection by the State or utility company, which is generally in the month preceding receipt by the County.

Licenses and permits, fines and forfeitures, charges for services and miscellaneous revenues (except interest on temporary investments) are recorded as revenues when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned since they are measurable and available.

COUNTY OF YORK, VIRGINIA
Notes to General Purpose Financial Statements, Continued
June 30, 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

The proprietary fund types follow the accrual basis of accounting. Accordingly, their revenues are recognized when earned, and their expenses are recognized when they are incurred. Unbilled utility service receivables are recorded in the Enterprise Funds when earned. In accordance with Governmental Accounting Standards Board (GASB) Statement No. 20 "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting" (Statement No. 20), proprietary fund types follow all applicable GASB pronouncements as well as all Financial Accounting Standards Board (FASB) pronouncements and predecessor Accounting Practices Board (APB) Opinions and Accounting Research Bulletins (ARB) issued on or before November 30, 1989. Under paragraph 7 of Statement No. 20, the County has elected not to apply FASB pronouncements issued after November 30, 1989.

E. Property Taxes

The two major sources of property taxes are described below:

Real Estate

The County levies real estate taxes on all real estate within its boundaries, except that exempted by statute, each year as of January 1 on the estimated market value of the property. All real estate property is assessed biennially.

Real estate taxes are billed in equal semi-annual installments due June 5 and December 5. Liens are placed on the property on the date real estate taxes are delinquent, June 6 and December 6, and must be satisfied prior to the sale or transfer of the property. Real estate taxes reported as revenue are for the assessment due December 5, 2001 and June 5, 2002, less an allowance for uncollectible amounts and taxes not collected within 45 days after year-end. The tax rate for calendar years 2001 and 2002 was \$.86 per \$100 of assessed value.

Personal Property

The County levies personal property taxes on motor vehicles and tangible personal business property. These levies are made each year as of January 1.

Personal property taxes are billed in equal semi-annual installments due June 5 and December 5. Personal property taxes do not create a lien on property; however, County decals, which are required by law for all vehicles garaged in the County, may not be issued to any individual having outstanding personal property taxes. The personal property taxes reported as revenue are for the levies due December 5, 2001, and June 5, 2002, less an allowance for uncollectible amounts and taxes not collected within 45 days after year-end. The tax rate for calendar years 2001 and 2002 was \$4.00 per \$100 of assessed value.

The County's property tax collection records show that 96.28% of the property taxes due for the current tax year were collected.

F. Budgets and Budgetary Accounting

The County follows these procedures in establishing the budgetary data reflected in the combined financial statements:

Annual budget requests of the General Fund, Special Revenue Funds, Debt Service Funds and Capital Project Funds for the ensuing fiscal year are submitted to the County Administrator by department or agency heads during the second quarter of the fiscal year. The County Administrator reviews the requests and meets with department heads to discuss agency requests.

Prior to June 30, the County Administrator submits a balanced budget to the Board of Supervisors for the next fiscal year to begin July 1. This budget includes the School Board's budget upon which the County Administrator can make recommendations, but not alter. The Board of Supervisors makes an appropriation to the School Board but is prohibited from exercising any control over specific expenditures of School Board operating funds.

COUNTY OF YORK, VIRGINIA
Notes to General Purpose Financial Statements, Continued
June 30, 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

After work sessions with the Board of Supervisors and public hearings, the budget is amended as necessary and an appropriations resolution by function level is adopted. Tax rates are established prior to the beginning of the fiscal year. The budget is required to be adopted by a majority vote of the Board of Supervisors prior to the end of the current fiscal year.

The Board of Supervisors appropriates funds on an appropriation function level and may make supplemental appropriations based on the availability of financial resources. The County Administrator may only authorize the transfer of funds within the appropriation function.

Every appropriation lapses at the close of the fiscal year to the extent that it has not been expended. Funding for projects such as the capital improvements program is reappropriated annually until the project has been accomplished or abandoned.

The budgets are prepared on a basis consistent with the modified accrual basis of accounting. Budgeted amounts reflected in the financial statements are as originally adopted or as amended by the Board of Supervisors or the County Administrator.

A summary of the supplemental appropriation activity approved by the Board of Supervisors during the fiscal year ended June 30, 2002 is as follows:

<u>Fund Type</u>	<u>Primary Government</u>	<u>School Board</u>
General Fund	\$ 9,636,338	\$ —
Special Revenue Funds	110,113	3,292,968
Debt Service Funds	21,300,000	—
Capital Project Funds	2,681,242	5,814,520
Total Supplemental Appropriations	<u>\$ 33,727,693</u>	<u>\$ 9,107,488</u>

G. Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund, Special Revenue Funds and Capital Project Funds. Encumbrances outstanding at year-end are reported as reserved fund balances since they do not constitute expenditures or liabilities and are reappropriated in the ensuing year's budget.

H. Allowance for Uncollectible Amounts

Provision for uncollectible property taxes is based upon a historical percentage of accounts written off applied to the total levies of all years carried in taxes receivable and, in certain cases, specific account analysis.

Provision for uncollectible solid waste, water and sewer service bills is based upon a historical analysis of uncollected accounts and, in certain cases, specific account analysis.

I. Cash and Temporary Investments

The County utilizes the pooled cash investment method. Income from the investment of pooled cash is allocated to the various funds based on the percentage of cash and temporary investments of each fund to the total pooled cash and temporary investments. See Note 2 for description of cash and temporary investment policies. Investments are stated at fair value.

J. General Fixed Assets

General fixed assets have been acquired for general governmental purposes. Assets purchased are recorded as expenditures in the governmental funds and capitalized at cost or estimated historical cost in the general fixed assets account group. Contributed general fixed assets are recorded at their estimated fair market value at the date of receipt.

COUNTY OF YORK, VIRGINIA
Notes to General Purpose Financial Statements, Continued
June 30, 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Fixed assets consisting of certain improvements other than buildings, including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems, have not been capitalized. Such assets normally are immovable and of value only to the County. Therefore, the purpose of stewardship for capital expenditures is satisfied without recording these assets.

No depreciation has been provided on general fixed assets.

K. Property, Plant and Equipment - Enterprise and Internal Service Funds

Property, plant and equipment reported in the proprietary funds are stated at cost. Donated property, plant and equipment are valued at estimated fair market value at the date of receipt. Depreciation has been provided over the estimated useful lives using the straight-line method. Depreciation on contributed property, plant and equipment is accounted for as an operating expense and as a reduction in contributed capital in lieu of retained earnings. The estimated useful lives are as follows:

Buildings and improvements	20 years
Plant, equipment and distribution system	40-50 years
Equipment	3-10 years

L. Compensated Absences

County employees are granted vacation and sick pay in varying amounts as services are provided. They may accumulate, subject to certain limitations, unused vacation and sick pay earned and, upon retirement, termination or death, may be compensated for certain amounts at their then current rates of pay. The cost of accumulated accrued compensated absences including associated benefits is accounted for as a liability in the general long-term debt account group and proprietary funds. In the governmental funds, the amount of the compensated absences recognized during the year is the amount accrued during the year that is normally liquidated with expendable available financial resources. In the proprietary funds, the amount of compensated absences recognized is the amount earned.

M. Retirement Plan

Retirement Plan contributions are actuarially determined and consist of current service costs and amortization of prior service costs over a 30-year period. The County's policy is to fund pension cost as it accrues.

N. Total Column on Combined Statements

Total columns on the combined statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with accounting principles generally accepted in the United States of America. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

O. Fund Equity Balances

Fund equity balances have been classified to reflect the limitations and restrictions placed on the respective funds as follows:

Investment in General Fixed Assets - represents the County's equity in owned general fixed assets that have been capitalized.

Contributed Capital - includes capital contributions to the Enterprise and Internal Service Funds from customers, and the local, state and Federal governments, net of accumulated depreciation on assets purchased from those contributions. The contributed capital transactions for the current year are summarized below:

	Enterprise Funds	Internal Service Fund
Contributed capital - July 1, 2002	\$ 39,087,095	\$ 16,631
From developers	2,778,050	—
From local government	1,282	—
Loss on disposal of assets	—	(2,145)
Depreciation expense	(991,890)	(4,921)
Contributed capital - June 30, 2002	<u>\$ 40,874,537</u>	<u>\$ 9,565</u>

COUNTY OF YORK, VIRGINIA
Notes to General Purpose Financial Statements, Continued
June 30, 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Concluded

Retained Earnings - represents the County's equity in retained earnings in the Enterprise and Internal Service Funds.

Fund Balances - Reserved - indicates that portion of fund equity which has been legally segregated for specific purposes or that does not represent available, expendable resources.

Fund Balances - Designated - indicates tentative plans for financial resource utilization in future periods.

Fund Balances - Undesignated - represents the remainder of the County's equity in governmental funds.

P. Statement of Cash Flows

For purposes of the statement of cash flows, cash and temporary investments with original maturities of three months or less are considered to be cash and cash equivalents.

Q. Use of Estimates

Management of the County has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Any differences between these estimates and actual results should immaterially affect the County's reporting of its financial position.

R. Credit Risk

The assessed value of real estate and personal property for the County's ten largest taxpayers comprises 14.25% of the County's tax base. Concentration of credit risk with respect to receivables is limited due to the large number of customers comprising the County's customer base.

2. DEPOSITS AND INVESTMENTS

The County maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Cash and Temporary Investments." In addition, the County has restricted cash and investments including cash and investments held with escrow agents.

At June 30, 2002, cash and investments consisted of:

Bank deposits	\$ 1,407,728
Restricted cash	737,138
Petty cash	5,255
Investments	75,045,956
Restricted investments	746,731
Balance of Joint Sanitary Board	<u>(23,780)</u>
Total cash and investments	<u>\$ 77,919,028</u>

A. Deposits

At year-end, the carrying value of the County's deposits with banks and savings institutions was \$1,363,477 and the bank balance was \$3,613,004. The bank balance of \$3,613,004 was covered by Federal depository insurance or collateralized in accordance with the Virginia Security for Public Deposits Act (the "Act"). Under the Act, banks holding public deposits in excess of the amounts insured by FDIC must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. Savings and loan institutions are required to collateralize 100% of deposits in excess of insured limits. Deposits collateralized under the Act are considered to be insured. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks and savings and loans.

Petty cash totals \$5,255. Of this amount, \$600 belongs to the School Board.

The carrying amount of deposits for the IDA was \$44,251 and the bank balance was \$48,943. The bank balance of \$48,943 was either covered by Federal depository insurance or was collateralized in accordance with the Virginia Security for Public Deposits Act.

COUNTY OF YORK, VIRGINIA
Notes to General Purpose Financial Statements, Continued
June 30, 2002

2. DEPOSITS AND INVESTMENTS, Continued

The carrying amount of the County's restricted cash - escrows was \$627,038 at June 30, 2002. Of this amount, \$5,000 is surety deposits for junkyards held in the County's and the junkyards' names; \$216,731 represents monies held in escrow for the debt payments on the capital lease with the Virginia Peninsulas Public Service Authority; \$65,237 is for the debt payments for the sewer revenue bonds; \$200,070 represents monies held in escrow at Trigon BlueCross BlueShield for the payment of future claims; and \$140,000 represents monies held in escrow for the purchase of land. These amounts are fully collateralized under the Virginia Security for Public Deposits Act.

The carrying amount of the IDA's restricted cash – escrow was \$110,100 as of June 30, 2002, which represents monies held for the Virginia Department of Transportation for wetlands mitigation. This amount is fully collateralized under the Virginia Security for Public Deposits Act.

B. Investments

Statutes authorize the County to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements and the State Treasurer's Local Government Investment Pool (LGIP). LGIP is managed in accordance with the "2a7 like pool" risk limiting requirements of GASB Statement No. 31 "Accounting and Financial Reporting for Certain Investments and for External Investment Pools" with the portfolio securities valued by the amortized cost method. Investments with a maturity date of one year or less are stated at amortized cost. All other investments are stated at fair value.

The County's investments are categorized below to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the County or its safekeeping agent in the County's name. Category 2 includes uninsured or unregistered investments for which the securities are held by the counterparty's trust department or its safekeeping agent in the County's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or by its safekeeping department or agent but not in the County's name.

At year-end, the County's investment balances were as follows:

	C A T E G O R Y			Carrying Amount	Fair Value
	1	2	3		
<u>Pooled:</u>					
Bonds	\$ 5,103,456	\$ —	\$ —	\$ 5,103,456	\$ 5,103,456
<u>Investments not subject to categorization:</u>					
Investment in US Government Cash Management Portfolio (MENTOR)				1,262,046	1,262,046
Investment in State Treasurer’s Local Government Investment Pool (LGIP)				68,334,304	68,334,304
Pension Trust Fund:					
Government Money Market				78,632	78,632
Mutual Funds				549,266	549,266
Federal Mortgages				99,957	99,957
				<u>\$ 75,427,661</u>	<u>\$ 75,427,661</u>

Because the cash and investments of the School Board are included in the County's pool of investments in bonds, MENTOR and LGIP, information such as investment categories cannot be separately presented for these categories. Of the amounts invested in bonds, MENTOR and LGIP, \$8,969,735 belongs to the School Board. The School Board Pension Trust Fund cash and investments totaling \$727,855 contains the following: government money market - \$78,632; mutual funds - \$549,266; and Federal mortgages - \$99,957.

COUNTY OF YORK, VIRGINIA
Notes to General Purpose Financial Statements, Continued
June 30, 2002

2. DEPOSITS AND INVESTMENTS, Concluded

At year-end, the IDA investment balances were as follows:

	C A T E G O R Y			Carrying Amount	Fair Value
	1	2	3		
Common Stocks	\$ 18,876	\$ —	\$ —	\$ 18,876	\$ 18,876
<u>Investments not subject to categorization:</u>					
Investment in State Treasurer's Local Government Investment Pool (LGIP)				346,150	346,150
				<u>\$ 365,026</u>	<u>\$ 365,026</u>

At year-end, the County did not have any investments in overnight repurchase agreements. Due to significantly higher cash flows at certain times during the year, the County invested in overnight repurchase agreements for which the dealer held the underlying securities.

3. NOTES RECEIVABLE

The County and the U. S. Army Corps of Engineers (the Corps) have entered into an escrow agreement to establish an escrow account of \$110,000 to guarantee the completion and successful operation of a wetlands restoration project. The agreement states that County has become obligated to the Corps for a wetlands mitigation as the result of the construction by the County of the Tabb Library (the Project) and consequently has the option of accomplishing such mitigation either through the payment to a mitigation bank with available credits in the Project's watershed or through the successful completion of a wetlands restoration project. The Corps has granted preliminary approval to a wetlands restoration project know as the Browns Park Stream Restoration and Wetlands Creation Plan (the Plan). Until the completion of the restoration project, the IDA deposited the funds with an escrow agent to guarantee the completion and successful operation of the Plan. The outstanding balance of the note receivable at June 30, 2002 was \$110,100.

The County has agreed to loan the IDA up to \$1,000,000 in connection with the relocation and renovation of the Yorktown Freight Shed Building as part of a multi-million dollar renovation project to the Yorktown waterfront area. In order to realize significant savings on the cost of the relocation and renovation of the Yorktown Freight Shed Building, the County is utilizing historic building renovation tax credits, which are available through both federal and Virginia income tax codes. In order to be able to utilize the tax credits, title to the Freight Shed building was conveyed by the Yorktown Trustees to Yorktown Freight Shed, L.P. (a Virginia limited partnership), which has been created to hold title to the building and to oversee the project with money provided by the County through the IDA. Interest on the outstanding principal balance of the note is due at a rate of 5.5% per annum. The outstanding balance of the note receivable at June 30, 2002 was \$187,575.

4. **PROPERTY, PLANT AND EQUIPMENT**

The following is a summary of changes in general fixed assets for the year ended June 30, 2002:

<u>Primary Government</u>	<u>Balance at July 1, 2001</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2002</u>
Land	\$ 8,270,958	\$ 462,775	\$ -	\$ 8,733,733
Buildings/improvements	34,371,982	91,906	-	34,463,888
Motor vehicles	3,523,622	106,964	(116,132)	3,514,454
Machinery/equipment	9,082,296	1,554,692	(1,245,248)	9,391,740
Construction in progress	292,624	591,272	(247,854)	636,042
	<u>\$ 55,541,482</u>	<u>\$ 2,807,609</u>	<u>\$ (1,609,234)</u>	<u>\$ 56,739,857</u>

COUNTY OF YORK, VIRGINIA
Notes to General Purpose Financial Statements, Continued
June 30, 2002

4. PROPERTY, PLANT AND EQUIPMENT, Concluded

Discretely Presented Component Unit - School Board	Balance at July 1, 2001	Additions	Deletions	Balance at June 30, 2002
Land	\$ 4,496,812	\$ —	\$ —	\$ 4,496,812
Buildings/improvements	71,023,674	2,767,956	—	73,791,630
Motor vehicles	6,138,735	351,344	(249,003)	6,241,076
Machinery/equipment	7,494,084	1,153,813	(493,422)	8,154,475
Construction in progress	1,374,445	665,859	(1,374,445)	665,859
	<u>\$ 90,527,750</u>	<u>\$ 4,938,972</u>	<u>\$ (2,116,870)</u>	<u>\$ 93,349,852</u>

A summary of property, plant and equipment in the proprietary fund types and component unit Industrial Development Authority at June 30, 2002 follows:

	Enterprise	Internal Service	Discretely Presented Component Unit - Industrial Development Authority
Land	\$ 3,914,402	\$ —	\$ —
Land Held for Resale	—	—	165,908
Buildings/improvements	9,436,178	—	—
Plant, equipment and distribution system	65,429,123	3,614,400	—
Building Held for Resale	—	—	2,717,047
Equipment	3,320,968	110,331	—
Investment in historical artwork	255,000	—	—
Construction in progress	16,638,607	—	—
	<u>98,994,278</u>	<u>3,724,731</u>	<u>2,882,955</u>
Less accumulated depreciation	<u>(21,248,205)</u>	<u>(2,139,089)</u>	<u>(203,778)</u>
	<u>\$ 77,746,073</u>	<u>\$ 1,585,642</u>	<u>\$ 2,679,177</u>

5. **LONG-TERM LIABILITIES**

A. **Enterprise Funds**

The general obligation bonds payable of \$69,600 recorded in the Enterprise Funds at June 30, 2002 have an interest rate of 5.8% and will mature in fiscal year 2003. The County anticipates that all amounts required for the payment of interest and principal on these bonds will be provided by the respective Enterprise Fund's revenues; however, these bonds are collateralized by the full faith and credit of the County. Debt service on the foregoing debt is payable during Fiscal Year 2003 in amounts of \$69,600 for principal and \$4,037 for interest.

Details of revenue bonds payable recorded in the Enterprise Funds at June 30, 2002 are as follows:

Outstanding debt	\$ 9,652,440
Interest rates	4.75 – 5.875%
Dates of maturity	Fiscal Years 2003 to 2032

The County anticipates that all amounts required for the payment of interest and principal on the bonds will be provided by the respective Enterprise Fund's revenues.

Debt service on the foregoing debt is payable during future fiscal years ending June 30 as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2003	\$ 168,153	\$ 538,980
2004	173,566	530,967
2005	183,999	522,696
2006	194,455	513,490
2007	204,933	503,762
Thereafter	<u>8,727,334</u>	<u>6,917,992</u>
	<u>\$ 9,652,440</u>	<u>\$ 9,527,887</u>

COUNTY OF YORK, VIRGINIA
Notes to General Purpose Financial Statements, Continued
June 30, 2002

5. LONG-TERM LIABILITIES, Continued

B. General Long-term Obligations Account Group

Details of general obligation bonds recorded in the General Long-term Obligations Account Group at June 30, 2002 are as follows:

Outstanding debt	\$38,645,400
Interest rates	3.00 - 7.44%
Dates of maturity	Fiscal Years 2003 to 2018

Debt service on the foregoing debt is payable during future fiscal years ending June 30 as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2003	\$ 2,620,400	\$ 1,972,332
2004	2,580,000	1,825,410
2005	2,760,000	1,676,967
2006	2,720,000	1,524,435
2007	2,710,000	1,376,268
Thereafter	<u>25,255,000</u>	<u>6,228,062</u>
	<u>\$ 38,645,400</u>	<u>\$ 14,603,474</u>

General obligation bonds are backed by the full faith and credit of the County. There are no sinking fund requirements.

Literary fund loans consist of loans from the State Literary Loan Fund for the construction and improvement of various schools. Payment will be made in annual installments plus interest calculated at 3 - 4% per annum. The following is a summary of the repayment schedules for fiscal years:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2003	\$ 160,000	\$ 51,000
2004	160,000	45,100
2005	160,000	39,200
2006	160,000	33,300
2007	160,000	27,400
Thereafter	550,000	61,500
	<u>\$ 1,350,000</u>	<u>\$ 257,500</u>

Note payable is a taxable-refunding note used to refinance the Virginia Retirement System (VRS) obligation incurred by the School Board in a one-time early retirement incentive program offered by VRS during the fiscal year 1992. Payment will be made in semi-annual installments plus interest calculated at 7.39% per annum. The following is a summary of the repayment schedules for fiscal years:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2003	\$ 167,780	\$ 225,749
2004	180,408	213,121
2005	193,986	199,542
2006	208,586	184,942
2007	224,286	169,243
Thereafter	2,120,925	633,769
	<u>\$ 3,095,971</u>	<u>\$ 1,626,366</u>

COUNTY OF YORK, VIRGINIA
Notes to General Purpose Financial Statements, Continued
June 30, 2002

5. LONG-TERM LIABILITIES, Continued

The following is a summary of changes in long-term obligations during the year ended June 30, 2002:

	<u>Balance at July 1, 2001</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2002</u>
<u>Proprietary Funds:</u>				
General obligation bonds	\$ 142,100	\$ —	\$ 72,500	\$ 69,600
Revenue bonds	9,810,200	—	157,760	9,652,440
Capital leases	1,680,000	—	120,833	1,559,167
Compensated absences	<u>255,052</u>	<u>17,380</u>	<u>—</u>	<u>272,432</u>
Total	<u>11,887,352</u>	<u>17,380</u>	<u>351,093</u>	<u>11,553,639</u>
<u>Primary Government:</u>				
General obligation bonds	41,122,900	15,005,000	17,482,500	38,645,400
Literary loans	1,535,700	—	185,700	1,350,000
Capital leases	459,780	65,560	153,052	372,288
Certificates of participation	3,470,000	—	3,470,000	—
Lease revenue refunding bonds	—	3,385,000	—	3,385,000
Note payable	3,252,007	—	156,036	3,095,971
Compensated absences	<u>2,671,801</u>	<u>129,274</u>	<u>—</u>	<u>2,801,075</u>
Total	<u>52,512,188</u>	<u>18,584,834</u>	<u>21,447,288</u>	<u>49,649,734</u>
<u>Discretely Presented</u>				
<u>Component Unit - School Board:</u>				
Capital leases	606,250	—	97,000	509,250
Compensated absences	<u>1,388,744</u>	<u>—</u>	<u>126,459</u>	<u>1,262,285</u>
Total	<u>1,994,994</u>	<u>—</u>	<u>223,459</u>	<u>1,771,535</u>
<u>Discretely Presented Component Unit - Industrial Development Authority:</u>				
Notes payable	<u>2,673,505</u>	<u>187,575</u>	<u>79,819</u>	<u>2,781,261</u>
Total	<u>2,673,505</u>	<u>187,575</u>	<u>79,819</u>	<u>2,781,261</u>
	<u>\$ 69,068,039</u>	<u>\$ 18,789,789</u>	<u>\$ 22,101,659</u>	<u>\$ 65,756,169</u>

C. Virginia Peninsula Regional Jail Authority Liabilities

On September 1, 1995, the Virginia Peninsula Regional Jail Authority (Jail Authority) of which the County is a member jurisdiction as discussed in Note 1, issued \$36,340,000 of Regional Jail Facility Revenue bonds. The bonds were issued for the purpose of acquiring, constructing and equipping a Regional Jail Facility to serve its member jurisdictions. The bonds bear interest at 4.5% to 5.5%, which will be paid semi-annually. The bonds mature in amounts ranging from \$1,320,000 on October 1, 2002 to \$7,645,000 on October 1, 2018. The outstanding balance at June 30, 2002 is \$30,825,000.

The bonds are limited obligations of the Jail Authority, and do not constitute a general obligation debt or pledge of the faith and credit of any member jurisdiction, nor do they obligate any member jurisdiction to levy or pledge any form of taxation therefore. However, the County has entered into a non-binding moral obligation pledge of the member jurisdictions in which the member jurisdictions have agreed to pay their proportionate share of the debt service on the bonds and any debt service funding requirements if the Jail Authority lacks sufficient funds to do so. The County's proportionate share is 34%.

D. Debt Defeasance

On November 1, 2001, the County issued \$15,005,000 million in General Obligation Bonds with an average interest rate of 3.96% to advance refund \$14,860,000 of outstanding 1994 Series Bonds with an average interest rate of 5.7%. The net proceeds from the Bonds were used to purchase U. S. Treasury Securities, which were deposited in an irrevocable trust with an escrow agent to provide all future debt service payments on \$14,860,000 of the \$20,210,000 1994 Series Bonds outstanding as of June 30, 2001. As a result, \$14,860,000 of the 1994 Series Bonds is considered to be defeased and the liability for these bonds has been removed from the general long-term debt account group as of June 30, 2002. The remaining \$4,395,000 will be paid out from July 15, 2002 to July 15, 2005. The defeasance resulted in a reduction of total debt service payments out of general long-term debt account group over the next 14 years of an average of \$83,000 per year.

COUNTY OF YORK, VIRGINIA
Notes to General Purpose Financial Statements, Continued
June 30, 2002

5. LONG-TERM LIABILITIES, Concluded

E. Industrial Development Authority Liabilities

On March 16, 1999, the IDA received a loan commitment of \$2,820,000 from Bank of America (formerly NationsBank) for a loan to pay off the outstanding balance of \$1,800,000 on the 1996 shell building loan and to finance the costs of certain construction and build-out improvements under the terms of a lease agreement for the shell building. In April 1999, the IDA began making monthly payments of interest only at 6.15%. Monthly principal and interest payments began August 1, 1999. The loan is backed by the moral obligation of the County of York, and secured by a credit line deed of trust on the property. The outstanding balance at June 30, 2002 is \$2,593,686.

On December 19, 2001, the County agreed to loan the IDA up to \$1,000,000 in connection with the relocation and renovation of the Yorktown Freight Shed Building as part of a multi-million dollar renovation project to the Yorktown waterfront area. In order to realize significant savings on the cost of the relocation and renovation of the Yorktown Freight Shed Building, the County is utilizing historic building renovation tax credits, which are available through both federal and Virginia income tax codes. In order to be able to utilize the tax credits, title to the Freight Shed building was conveyed by the Yorktown Trustees to Yorktown Freight Shed, L.P. (a Virginia limited partnership), which has been created to hold title to the building and to oversee the project with money provided by the County through the IDA. Interest on the outstanding principal balance of the note is due at a rate of 5.5% per annum. The outstanding balance of the note payable at June 30, 2002 was \$187,575.

The following is a summary of the payments required on principal for fiscal years:

<u>Year</u>	<u>Principal</u>
2003	\$ 87,562
2004	93,194
2005	2,412,930
2006	—
2007	—
Thereafter	187,575
	<u>\$ 2,781,261</u>

6. INTERFUND TRANSACTIONS

A. Interfund Receivables and Payables

Individual fund interfund receivable and payable balances at June 30, 2002 are as follows:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
Primary Government:		
General Fund	\$ 3,378,238	\$ 1,504,955
Special Revenue Fund – Virginia Public Assistance	–	208,105
Capital Project Fund:		
Yorktown Capital Improvements	1,366,900	–
County Capital	81	–
Enterprise Fund-		
Solid Waste	–	904
Sewer Utility	137,974	–
Yorktown Revitalization	–	3,169,229
	<u>\$ 4,883,193</u>	<u>\$ 4,883,193</u>
Discretely Presented Component Unit – School Board:		
School Operating Fund	\$ 470	\$ –
School Construction Fund	–	470
	<u>\$ 470</u>	<u>\$ 470</u>

B. Interfund Receivables and Payables - Primary Government and Component Unit School Board

Individual Primary Government and Component Unit - School Board intra-reporting entity receivable and payable balances at June 30, 2002 are as follows:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
Primary Government:		
General Fund	\$ 60,044	10,662,702
Enterprise Fund – Solid Waste	206	–
	<u>\$ 60,250</u>	<u>\$ 10,662,702</u>
Discretely Presented Component Unit – School Board-		
School Operating Fund	<u>\$ 10,662,702</u>	<u>\$ 60,250</u>

COUNTY OF YORK, VIRGINIA
Notes to General Purpose Financial Statements, Continued
June 30, 2002

6. INTERFUND TRANSACTIONS

C. Interfund Operating Transfers

The following interfund operating transfers occurred during the year ended June 30, 2002:

	<u>Transfers In</u>	<u>Transfers Out</u>
Primary Government:		
General Fund	\$ 30,000	\$ 13,802,213
Special Revenue Funds:		
Children's Services/Head Start	165,125	—
Virginia Public Assistance	1,013,277	—
Debt Service Funds:		
Fire and Rescue Fund	197,023	—
Public Facilities Fund	482,604	—
Education Debt Redemption Fund	4,764,137	—
Capital Project Funds:		
Yorktown Capital Improvements	1,339,400	30,000
County Capital	3,514,119	—
Enterprise Funds:		
York Sanitary District	10	—
Solid Waste	1,000,000	—
Water Utility	319,629	—
Sewer Utility	910,993	10
Internal Service Fund	95,906	—
	<u>\$ 13,832,223</u>	<u>\$ 13,832,223</u>

6. **INTERFUND TRANSACTIONS, Concluded**

D. **Transfers Between Primary Government and Component Units**

The following transfers took place between the primary government and its component units during the year ended June 30, 2002:

	<u>Transfers In</u>	<u>Transfers Out</u>
Primary Government:		
General Fund	\$ 1,807,982	\$ 30,589,163
Debt Service Fund – Education Debt Redemption	393,529	–
Capital Project Fund – County Capital	–	2,241,000
	<u>\$ 2,201,511</u>	<u>\$ 32,830,163</u>
Discretely Presented Component Units:		
School Board:		
School Operating Fund	\$ 28,136,796	\$ 2,201,511
School Construction Fund	4,515,447	–
Industrial Development Authority	177,920	–
	<u>\$ 32,830,163</u>	<u>\$ 2,201,511</u>

COUNTY OF YORK, VIRGINIA
Notes to General Purpose Financial Statements, Continued
June 30, 2002

7. SEGMENTS OF ENTERPRISE ACTIVITIES

The County maintains five enterprise funds, which provide water and sewer services; a sixth fund, which provides for solid waste disposal; and a seventh fund for the revitalization in Yorktown. The key financial data for the year ended June 30, 2002 for those services are as follows:

	York Sanitary District	Sanitary District No. 2	Water Enterprise	Solid Waste	Water Utility	Sewer Utility	Yorktown Revitalization	Total
Operating revenues	\$ —	\$ —	\$ —	\$ 2,957,557	\$ 821,889	\$ 7,608,902	\$ —	\$ 11,388,348
Operating expenses:								
Depreciation	84,830	443,016	20,111	143,495	41,547	1,102,266	—	1,835,265
Other	—	—	—	3,774,511	436,068	3,114,202	—	7,324,781
Total operating expense	84,830	443,016	20,111	3,918,006	477,615	4,216,468	—	9,160,046
Operating income (loss)	(84,830)	(443,016)	(20,111)	(960,449)	344,274	3,392,434	—	2,228,302
Net non-operating revenues (expenses)	—	—	—	(98,555)	(789,745)	(232,623)	—	(1,120,923)
Operating transfer in (out)	10	—	—	1,000,000	319,629	910,983	—	2,230,622
Net income (loss)	\$ (84,820)	\$ (443,016)	\$ (20,111)	\$ (59,004)	\$ (125,842)	\$ 4,070,794	\$ —	\$ 3,338,001
Total assets	\$ 1,439,490	\$ 11,618,687	\$ 530,130	\$ 3,033,488	\$ 4,343,190	\$ 68,344,302	\$ 3,170,429	\$ 92,479,716
Long-term liabilities	\$ —	\$ —	\$ —	\$ 1,525,996	\$ 2,135	\$ 9,694,808	\$ —	\$ 11,222,939
Working capital	\$ 122	\$ —	\$ —	\$ (150,539)	\$ 341,804	\$ 11,513,225	\$ (3,030,429)	\$ 8,674,183
Total fund equity (deficit)	\$ 1,439,490	\$ 11,618,687	\$ 530,130	\$ 513,906	\$ 4,256,144	\$ 57,047,694	\$ —	\$ 75,406,051
Acquisition of property, plant & equipment	\$ —	\$ —	\$ —	\$ 378,667	\$ 736,280	\$ 6,203,403	\$ 3,030,429	\$ 10,348,779
Increase in capital contributions	\$ —	\$ —	\$ —	\$ 1,282	\$ —	\$ 2,778,050	\$ —	\$ 2,779,332

8. **LEASES**

The County leases certain equipment and various office spaces under noncancellable operating lease agreements. A summary of future minimum rental payments under noncancellable operating leases as of June 30, 2002 is as follows:

<u>Fiscal Years</u>	<u>Primary Government</u>	<u>Discretely Presented Component Unit - School Board</u>
2003	\$ 79,561	\$ 17,741
2004	71,627	17,741
2005	65,771	10,202
2006	38,367	4,806
2007	-	-
Total minimum lease payments	<u>\$ 255,326</u>	<u>\$ 50,490</u>

Rental expenditures for the year ended June 30, 2002 for all operating leases were \$101,362 and \$21,766 for the County and Discretely Presented Component Unit - School Board, respectively.

The County also leases the usage of its communications tower under operating lease agreements. This tower is an asset included in the County's General Fixed Asset Account Group at June 30, 2002 with a carrying amount of \$134,174.

The IDA leases the usage of a shell building. The shell building is an asset listed as Property, Plant and Equipment as of June 30, 2002 with a carrying amount of \$2,513,269, net of accumulated depreciation. The lessor has the exclusive option to purchase the building prior to June 30, 2004 at a price equal to \$2,650,000 less the aggregate principal payments paid by the IDA.

COUNTY OF YORK, VIRGINIA
Notes to General Purpose Financial Statements, Continued
June 30, 2002

8. LEASES, Continued

A summary of the future minimum rental receipts under noncancellable operating leases as of June 30, 2002 is as follows:

<u>Fiscal Year</u>	<u>Operating Leases</u>	<u>Discretely Presented Component Unit - School Board</u>	<u>IDA</u>
2003	\$ 305,696	\$ 66,503	\$ 262,800
2004	258,444	22,200	262,800
2005	229,336	9,800	-
2006	196,044	9,800	-
2007	196,044	2,650	-
Thereafter	<u>2,699,890</u>	<u>27,165</u>	<u>-</u>
Total minimum lease payments	<u>\$ 3,885,454</u>	<u>\$ 138,118</u>	<u>\$ 525,600</u>

Rental revenue receipts for all operating leases were \$346,802 for the County, \$73,000 for the School Board, and \$242,400 for the IDA for the year ended June 30, 2002.

The County leases certain equipment and buildings under capital lease agreements. A summary of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of June 30, 2002 is as follows:

<u>Fiscal Year</u>	<u>Primary Government Governmental Funds</u>	<u>Enterprise Funds</u>	<u>Discretely Presented Component Unit - School Board</u>
2003	\$ 549,107	\$ 211,015	\$ 121,353
2004	544,206	209,450	116,358
2005	549,606	207,471	111,362
2006	501,228	205,834	106,367
2007	445,229	208,042	101,371
Thereafter	<u>1,897,853</u>	<u>1,019,084</u>	<u>24,597</u>
Total minimum lease payment	4,487,229	2,060,896	581,408
Less amount representing interest	<u>(729,941)</u>	<u>(501,729)</u>	<u>(72,158)</u>
Present value of principal	<u>\$ 3,757,288</u>	<u>\$ 1,559,167</u>	<u>\$ 509,250</u>

8. **LEASES**, Concluded

The carrying value of fixed assets under capital lease agreements is as follows: the Governmental Funds - \$5,596,112; and the Enterprise Funds - \$1,284,822.

9. **DEFINED BENEFIT PENSION PLANS**

A. **Plan Descriptions**

The County of York has three defined benefit pension plans. In the first plan (the "County" plan), the County of York contributes to the Virginia Retirement System (VRS), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for political subdivisions in the Commonwealth of Virginia. The County of York payroll for employees covered by the VRS for the year ended June 30, 2002 was \$22,723,469 out of the total payroll of \$25,415,520.

In the second plan (the "School Board" plan), professional employees of the York County School Board are covered by the VRS. Professional employees participate in a VRS statewide teacher cost sharing pool. The payroll for professional employees covered by VRS for the year ended June 30, 2002 was \$42,333,209; the total payroll was \$44,951,789. As of June 30, 1992, non-professional employees of the York County School Board are also covered by the VRS. Non-professional employees participate as a separate group in the agent multiple-employer retirement system. The payroll for non-professional employees covered by VRS for the year ended June 30, 2002 was \$5,487,460 out of the total payroll of \$6,332,343.

COUNTY OF YORK, VIRGINIA
Notes to General Purpose Financial Statements, Continued
June 30, 2002

9. DEFINED BENEFIT PENSION PLANS, Continued

All full-time, salaried permanent employees of participating employers must participate in the VRS. Benefits vest after five years of service. Employees are eligible for an unreduced retirement benefit at age 65 with 5 years of service (age 60 for participating local law enforcement officers and firefighters) and at age 50 with 30 years of service for participating employers (age 50 with 25 years for participating local law enforcement officers and firefighters) payable monthly for life in an amount equal to 1.7% of their average final salary (AFS) for each year of credited service. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. In addition, retirees qualify for annual cost-of-living increases limited to 5% per year beginning in their second year of retirement. AFS is defined as the highest consecutive 36 months of salary. Participating local law enforcement officers and firefighters may receive a monthly benefit supplement if they retire prior to age 65. The VRS also provides death and disability benefits. Title 51.1 of the *Code of Virginia (1950)*, as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia. The system issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be obtained by writing the VRS at P.O. Box 2500, Richmond, Virginia 23218-2500.

In the third plan (the "optional" plan), non-professional employees of the York County School Board who were not previously covered by VRS are provided pension benefits through a single employer defined benefit pension plan administered by a fiduciary agent of the York County School Board. The optional plan provides retirement benefits as well as death and disability benefits. As of June 30, 1992, the optional plan was frozen and the non-professional employees who participated in the plan became fully vested. The non-professional employees now participate in the VRS as noted above.

B. Funding Policy

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5% of their annual salary to the VRS. This 5% member contribution has been assumed by the County of York and by the York County School Board. In addition, the County of York and the York County School Board are required to contribute the remaining amounts necessary to fund the systems using the actuarial basis specified by the *Code of Virginia* and approved by the VRS Board of Trustees. The County of York's contribution rate for fiscal years ended 2002, 2001, and 2000, was 7.5%, 9.24% and 12.2%, respectively, of annual covered payroll. The York County School Board's contribution rate for non-professional employees for fiscal years ended 2002, 2001, and 2000 was 10%, 10.69%, and 10.48%, respectively, of annual covered payroll. The York County School Board's required contribution for the professional employees for fiscal years ended 2002, 2001, and 2000, was \$3,634,937, \$5,010,201, and \$5,076,942, respectively, and was fully funded for each fiscal year.

C. Annual Pension Cost

The County of York's annual pension costs of \$1,704,260, \$1,896,308, and \$2,340,466 for 2002, 2001, and 2000, respectively, were equal to the required and actual contributions. The York County School Board's annual pension costs for the non-professional employees of \$708,058, \$661,141, and \$500,673 for 2002, 2001, and 2000, respectively, were equal to the required and actual contributions.

The required contribution for VRS was determined as part of the June 30, 2000 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 8% investment rate of return, (b) projected salary increases ranging from 4.25% - 6.1% per year, and (c) 3% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3%. The actuarial value of the County's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The County's funding excess is being amortized as a level percentage of payroll on an open basis within a period of ten years.

COUNTY OF YORK, VIRGINIA
Notes to General Purpose Financial Statements, Continued
June 30, 2002

9. DEFINED BENEFIT PENSION PLANS, Continued

Schedule of Funding Progress
(As Required by GASB #27)

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (AVA)</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL) (Funding Excess)</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>UAAL (Funding Excess) as % of Payroll</u>
<u>County Plan</u>						
June 30, 1999	\$ 49,484,840	\$ 44,952,282	\$ (4,532,558)	110.1%	\$ 18,717,378	-24.2%
June 30, 2000	\$ 58,475,855	\$ 46,721,751	\$ (11,754,104)	125.2%	\$ 19,697,878	-59.7%
June 30, 2001	\$ 65,434,779	\$ 55,752,167	\$ (9,682,612)	117.4%	\$ 21,512,466	-45.0%
<u>Optional Plan</u>						
June 30, 2000	\$ 1,106,125	\$ 1,603,196	\$ 497,071	69.0%	\$ —	N/A
June 30, 2001	\$ 981,289	\$ 1,631,198	\$ 649,909	60.2%	\$ —	N/A
June 30, 2002	\$ 725,405	\$ 1,726,804	\$ 1,001,399	42.0%	\$ —	N/A
<u>School Board Plan - Non-Professional</u>						
June 30, 1999	\$ 3,889,444	\$ 4,789,630	\$ 900,186	81.2%	\$ 4,431,700	20.3%
June 30, 2000	\$ 4,876,776	\$ 4,797,873	\$ (78,903)	101.6%	\$ 4,825,161	-1.6%
June 30, 2001	\$ 5,929,049	\$ 5,881,679	\$ (47,370)	100.8%	\$ 5,349,983	-0.9%

The York County School Board's annual pension costs for the optional plan of \$41,043, \$43,413, and \$36,399 for 2002, 2001, and 2000, respectively, were equal to the required and actual contributions.

9. **DEFINED BENEFIT PENSION PLANS**, Concluded

The actuarial accrued liability for the optional plan was determined as part of an actuarial valuation on June 30, 2002. Significant actuarial assumptions used include (a) a rate of return on the investment of present and future assets of 7% per year compounded annually, (b) post-retirement benefit increases of 2% per year, and (c) percentage of current retiree benefits to be paid of 100%.

10. **COMMITMENTS AND CONTINGENT LIABILITIES**

A. **Post-Closure Landfill Costs**

The landfill was closed on October 9, 1993. Post-closure costs at June 30, 2002 of \$304,244 are expected to be incurred over the next two years. An annual evaluation is performed to determine future costs. Funding of these costs will be from current operating revenues. Post-closure costs are included in liabilities of the Solid Waste Fund as follows:

Construction of methane gas collection system	\$ 2,940
Landfill monitoring and maintenance	<u>301,304</u>
	304,244
Less current portion	<u>(224,244)</u>
	<u>\$ 80,000</u>

COUNTY OF YORK, VIRGINIA
Notes to General Purpose Financial Statements, Continued
June 30, 2002

10. COMMITMENTS AND CONTINGENT LIABILITIES, Continued

B. Risk Management

The County and the School Board are exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The County reports all of its risk management activities in its General Fund and pays all claims for retained risks from General Fund resources. The School Board reports all of its risk management activities in its Operating Fund and pays all claims for retained risks from Operating Fund resources. The County and the School Board maintain comprehensive property and casualty policies, commercial general liability policies, comprehensive liability vehicle fleet policies and coverages for errors and omissions, and employer's liability and certain other risks with commercial insurance companies. The General and School Operating Funds retain the full risk for unemployment compensation, up to \$60,000 for each health care claim and up to \$200,000 for each workers' compensation occurrence subject to a \$600,000 annual aggregate on the combined claims. All unemployment, health care claims and workers' compensation claims are paid through a third-party administrator through resources from the General and School Operating Funds. For all retained risks, claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. There have been no reductions in insurance coverages from the prior year, and settled claims have not exceeded the amount of insurance coverage in any of the past four fiscal years.

The County health care liability at June 30 is included in salaries, taxes and benefits payable balance of the County operating funds. The County had available \$345,930 for health care claims and \$1,488,321 for workers' compensation claims at June 30, 2002, which is considered sufficient to cover pending claims and incurred but not reported claims that may arise.

10. COMMITMENTS AND CONTINGENT LIABILITIES, Concluded

Changes in the reported liability since June 30, 2000 resulted from the following:

	<u>2002</u>	<u>2001</u>
Accrued liability at beginning of year	\$ 1,680,340	\$ 1,499,964
Claims and changes in estimates	3,968,964	3,169,400
Claims payment	<u>(3,815,053)</u>	<u>(2,989,024)</u>
Accrued liability at end of year	<u>\$ 1,834,251</u>	<u>\$ 1,680,340</u>

The School Board health care claim liability at June 30 is included in salaries, taxes, and benefits payable balance of the Schools Operating Fund. The Schools had available \$828,223 for health care claims and \$1,517,263 for workers' compensation claims at June 30, 2002, which is considered sufficient to cover pending claims and incurred but not reported claims that may arise.

Changes in the reported liability since June 30, 2000 resulted from the following:

	<u>2002</u>	<u>2001</u>
Accrued liability at beginning of year	\$ 2,117,385	\$ 1,729,770
Claims and changes in estimates	5,769,050	4,460,648
Claims payment	<u>(5,540,949)</u>	<u>(4,073,033)</u>
Accrued liability at end of year	<u>\$ 2,345,486</u>	<u>\$ 2,117,385</u>

COUNTY OF YORK, VIRGINIA
Notes to General Purpose Financial Statements, Continued
June 30, 2002

11. SURETY BONDS

The County of York maintains the following surety bonds at June 30, 2002:

	<u>Amount</u>
<u>Fidelity and Deposit Company of Maryland - Surety:</u>	
Treasurer and/or Director of Financial & Management Services	\$ 750,000
Clerk of the Circuit Court	1,275,000
Sheriff	30,000
Commissioner of the Revenue	3,000
County Administrator	2,000
<u>Travelers Casualty and Surety Company of America - Surety:</u>	
Code Compliance	1,000
<u>Virginia Municipal Liability Pool – Surety:</u>	
All County employees	250,000

In addition, the Discretely Presented Component Unit - School Board maintains the following surety bond at June 30, 2002:

<u>Graphic Arts Mutual Insurance Company - Surety:</u>	
All School Board employees	\$ 250,000

12. **JOINT VENTURE**

The County of York has a 76% share of the York County - James City County Joint Sanitary District. Each County is represented on the Joint Sanitary District Board by its Board of Supervisors and exercises control over budgeting and financing. The Joint Board ceased operation as of July 1, 1987 and is in the process of being dissolved. York County will receive 76% of the assets and liabilities upon dissolution.

Summary financial information of the Joint Sanitary District for the year ended June 30, 2002 is as follows:

Assets	<u>\$ 608,495</u>
Liabilities - current	<u>\$ 12,088</u>
Equity	<u>\$ 596,407</u>

13. **POST-RETIREMENT BENEFITS**

In addition to the pension benefits described in Note 9, the School Board provides post-retirement health care benefits, in accordance with School Board policy, to all employees who retire from York County Public Schools with 100 days of accumulated sick leave, 10 years of service and a minimum of 24 months participation in the health insurance program immediately prior to retirement. Currently, 7 retirees are participating in this program. The School Board pays a monthly contribution of \$25 toward the health care program premium for a total period of time not to exceed 10 years or until retiree is eligible for Medicare. Expenditures for post-retirement health care benefits are recognized as incurred. During the year, expenditures of \$2,100 were recognized as incurred for post-retirement health care.

COUNTY OF YORK, VIRGINIA
Notes to General Purpose Financial Statements, Concluded
June 30, 2002

14. DEFERRED COMPENSATION PLAN

The County, including its component unit IDA, offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all County employees, permits them to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are held in trust for the participants. Investments are managed by the plan's trustee under one or a combination of 34 investment options. The participants make the choice of the investment options.

The Schools offer its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 403(b). The plan, available to all Schools employees, permits them to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until separation of service; retirement, death, disability, financial hardship and/or reaching age 59½. The Schools offer a selection of investment options to participants. All earnings on the invested funds compound tax-free until withdrawn from the account.

15. DEFERRED REVENUE

Deferred revenue represents amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, such amounts are measurable, but not available. At June 30, 2002, deferred revenue totaled \$2,789,600. Of this amount, \$1,861,028 represents uncollected tax billings not available for funding of current expenditures; \$497,181 represents the receipt of payments of a tax assessment due on December 5, 2002, but not yet billed; \$110,100 represents a note receivable for a wetlands mitigation plan; \$31,157 represents the advance payment for the Virginia Individual Development Accounts program; \$10,481 represents the advance payment from the City of Poquoson for shared court services; \$16,667 represents tower rentals paid in advance; \$296 represents office space rentals paid in advance; \$355 represents the advance receipt of monies for a fund raising event; \$187,575 represents a note receivable from the IDA; and \$74,760 represents the advance payment of shared expenses for a sewer construction project.

The deferred revenue at June 30, 2002 for the IDA of \$20,200 consisted of shell building rents paid in advance.

16. SUBSEQUENT EVENTS

On October 1, 2002, the County Board of Supervisors authorized the issuance of \$8,400,000 general obligation school bonds to be sold to the Virginia Public School Authority. The proceeds will be used to finance school construction projects.